SOME ECONOMIC ASPECTS OF GERMAN EASTWARD EXPANSION 1900-1914

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MILETUS LAFAYETTE FLANINGAM, JR.

A.B., University of Illinois, 1937

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AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN HISTORY IN THE GRADUATE SCHOOL OF THE UNIVERSITY OF ILLINOIS, 1940

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An attempt is herein made to present a survey of the actual economic penetration by Germany with Austria into the Balkan area, in the decades immediately prior to the Great War, relative to their well-known political and diplomatic activities. Consequently, no attempt has been made to analyse in detail or interpret the technicalities of the economic laws, theories, and practices involved, or to reiterate the vast amount of political and diplomatic events and documents concerned. These matters are noted only in so far as they are absolutely essential to the clarity of the specific points under review.

The obvious magnitude of the general topic necessitates a selective process in presenting even a general survey. Any one of the selected elements discussd here is in itself a distinct topic in economics or history. Consequently, this work is confined to a review of the German and Austrian banking and financial expansion ,the system of commercial treaties involved, and the actual trade relations of Germany with Austria-Hungary and with the Balkan states of Bulgaria, Rumania, and Serbia. Such related subjects as the Bagdad railroad, the history of the Reichsbank, the German great cartels, and details of transportation improvements are treated only in connection with the basic considerations because they are, in one sense, distinct topics in themselves and have already been the subject of exhaustive and scholarly dissertations.

The relationship between Germany and the Balkan states of Europe immediately prior to the Great War of 1914 to 1918 was economic as well as political just as it is today. In order to appreciate to the fullest extent the economic factors herein reviewed one must first revert to the familiar story of Germany's remarkable rise in economic power to the position of a leading industrial nation of the world in the years after 1871.

Many of the outstanding facts in Germany's economic history from 1870 to 1900, which influenced its relations with the Great Powers, were also effective in guiding its activities in the Balkans. For example, such factors may be cited as the concentration of German banking, trends in the relationship of banking

and industry, policies in regard to the investment of German capital abroad, the relation of government to banking and industry, the export policies of the cartels, trade agreements programs, and especially of the sales or marketing system abroad. In some cases such general factors may be illustrated more effectively by the special examples offered in German-Balkan relations. The Balkans afforded to Germany an excellent opportunity, if not practically an unrestricted one for the free use of the economic policies and system which it had been and was perfecting.

The familiar statistics on Germany's economic growth for the period 1871 to 1900 require no further comment either as to their significance to German and world economic conditions or so far as the consequences on Germany's economic policy are concerned. It should be noted, however, that the same general processes continued during the period specifically reviewed here.

The host of events in German economic history of the earlier period were none the less significant, for they materially contributed to the strength of the Germany of 1900 to 1913, which in this latter period dealt more directly and actively with the Balkans. It was not until after the turn of the century that a continuous and well established system of economic relationships were pursued by Germany in regard to each of these specific countries.

It should be emphasized that the earlier efforts of the German banks and industries in the Balkans and the commercial treaties and trade relations that were created in consequence thereof before 1900, established the foundation upon which Germany based its extensive advantages gained in the immediate pre-war years.

With Count Caprivi as Chancellor, in 1890, the Neue Kurs (New Course) officially began and it had a definite economic aspect. It became evident that commercial arrangements with other nations would have to be made from time to time in order to facilitate the expansion of the export trade upon which Germany, as a growing industrial nation was becoming so dependent.

It may be said in advance that the Caprivi treaties were, as the Neue Kurs itself, premature in so far as their immediate success was concerned. They did not completely achieve their

aim, but this was partly because of the general economic disorders throughout the world during the middle 1890s. Nevertheless, Caprivi and the Neue Kurs reflected a changing condition in world economic balance and constituted a prelude to Germany's economic expansion after 1900.

The Caprivi treaties were not without their value in spite of the obstacles which arose in opposition. The treaties with central and southeastern Europe were with Austria-Hungary in 1891 and with Rumania and Serbia in 1893. These areas together with Bulgaria, with which Germany had only a most-favored-nation agreement, constituted a logical and natural course for the expansion of German economic interests because of their geographical location and because their areas combined economically with Germany, when developed and exploited, would form a complete economic unit.

With Caprivi's resignation the Neue Kurs in its economic policy came temporarily to a standstill. Under the elderly Chancellor Prince von Hohenlohe no further efforts toward extending Germany's influence in Austria-Hungary or in the Balkans by and for economic interests were made by the Government. However, German trade with these states steadily increased as did the general trade. Under Hohenlohe preparation for a new autonomous tariff and the consequent tariff treaties, which were concluded under Chancellor Prince von Bülow in the first years of the new centruy, were made.

In concluding a brief review of the historical background of the German expansion into southeastern Europe 1900 to 1913, a discussion of the significance of non-political or rather no-govarnmental agencies as vital factors in the success of Germany's efforts is essential.

The efforts of the four "D" banks or the German great banks were of primary importance. These banks were the *Discontogesellschaft,* the *Deutsche Bank,* the *Dresdener Bank,* and the *Darmstädter Bank,* and their systems included other great banks, whether joint stock or not, closely allied or affiliated with them. Foremost in German power-politics, especially where the great industries involved in foreign trade were concerned, were these German joint stock banks. They developed with and constituted the nucleus of the German industrial state. They reflected by

their organization and by their activities the German "Weltanschauung" (world out-look) of the period 1870 to 1918, just as did the large scale industries or the Government itself by its political and diplomatic policies, Schulze-Gävernitz, in this regard noted that: "Let us be frank,, for Germany the final criterion is Power and Security, economically as well as political. In order to attain these objectives we must concur with the large scale activities of the banks and their activities in bringing about the industrialized state; for how could Germany have met the competition of the Anglo-Saxon world with a small and unorganized banking system?"

The German banks as intermediaries between the Government and industry, between these and foreign banking and financial systems, and as integral part of the entire German economic system gave all foreign trade of Germany a distinctly national character. Thus German foreign trade became something more than mere commercial transactions with the foreign market. Furthermore, the accomplishments of this earlier period had a direct and significant bearing on the period 1900 to 1913 which cannot be over emphasized because of the continuity of banking policies, the increase in intensity both of policy and interests, and the increased trade and other economic factors involved in German-Balkan relationships as a result of these initial efforts.

In any problem involving Germany and the Balkan states the position of Austria, because of its geographical location, consequent vital political and economic interests, and because of similar relations with Germany, must necessarily be considered. Certain general conclusions in regard to Austria-Hungary may be made. It is a commonplace fact that Austria-Hungary was the weaker of the two empires both economically as well as politically. The basic cause for its political weakness was also the source of its economic problems, namely, the extreme nationalism maintained by each group of its heterogeneous population.

The Dual Monarchy was a debtor nation throughout the period while the political maladjustments contributed to the backwardness of the empire. The Ausgleich (Compromise between Austria and Hungary) alone was sufficient to retard the natural progress of the empire, because at each time when the agreement was to be renewed, the entire economic system of the empire

had to be readjusted accordingly. There was always the possibility of failure to continue the Ausgleich, and since it contained an economic agreement the economic well-being of both states was therefore threatened. The failure to renew the Ausgleich would have meant customs frontiers, a complete disruption of the economic life of both parts of the empire, and consequently the destruction of their economic power abroad.

In the period 1900 to 1914 the general economic condition of the Dual Monarchy gradually improved and in spite of unfavorable foreign relations which at all times tended to hinder desirable economic progress. The most significant feature of Austro-German economic relations in this period was the increase of the former's dependence upon Germany for its economic well-being and the corresponding decrease of Germany's dependence upon Austria. This fact was clearly reflected in the matter of trade relations, which may be best observed over the larger period 1895 to 1914. However, the economic bonds of the two empires became more numerous, more extensive in scope, and of more real effectiveness, especially after 1905. Certainly their interests, economic as well as political, were mutual, and these interests were essentially German interests. The extensive economic relations of Austria-Hungary and Germany with the Balkans and with each other precludes any study of their separate economic relations with those states.

The German customs tariff of 1902 and the Caprivi treaty of 1891 necessitated the commercial treaty of 1905. This commercial treaty embodied a tariff agreement which governed the economic relations of the two empires for the remainder of the period. The banking and financial relations were of primary importance because of the close affiliation of banking and industry in both empires. What the data on trade and other economic bonds of the two empires prove, may also be said of their banking and financial relations, i. e., that Austria-Hungary, from the viewpoint of German interests, was not considered a foreign market. In general, the relationship was similar to that of United States and Canada, if not actually closer, for there were, in the former no commission merchants and German manufacturers dealt directly with their Austro-Hungarian customers.

The extensive financial activities of the German great banks

in Austria-Hungary also tended to minimize the significance of the political boundary between Germany and the Dual Monarchy. The efforts of the German banks in Austria consisted of three general forms, namely; state and municipal loans, loans to industrial enterprises, and the promotion of and investment in industrial enterprises, particularly public utilities such as railroads.

In addition to these factors, two other elements characterized the Austro-German economic bloc. First, from 1905 to 1914 there developed a tendency on the part of German and in particular south German industries to establish branch factories within both Upper and Lower Austria and in Bohemia, while a number of Austrian corporations founded branches in Saxony and Bavaria. Second, the great commercial organizations in Germany held among their aims the expansion of German industries and German trade in Austria as well as in southeastern Europe. Some of the more important general commercial organizations were: the *Zentralverband Deutscher Industrieller,* the*Handelsverträgverein,* the *Bund der Industriellen, Zentralstelle für Vorbereitung von Handelsverträgen,* and the *Hansabund.* Also of direct concern to Austrian relations was the *Central European Economic Association* (Mitteleuropäischer-Wirtschaftverein).

Thus the prevalent arguments throughout the period against the Customs Union idea and the absence of any successful attempts in achieving such a system must not be confused with or mistaken for a total lack of economic cooperation and mutual interests. On the contrary, their relations with the Balkan states must be reviewed as a unit in order to obtain a complete appreciation of the Germanic interests and control in that region.

The banking and financial penetration of German and Austrian interests in to Bulgaria, Rumania, and Serbia comprised certain characteristics which were similar in each case.

Their aim was to further German and Austrian trade relations with and financial control over these states in order to facilitate the essential 'export industrialism' policy of their empires. The financial penetration into these Balkan states was undertaken by several bank consortiums which were composed of the four 'D' banks, the *Berliner Handelsgesellschaft, Schaaffhausen'scher*

Bankverein, the *Vienna Kreditanstalt,* the *Oesterreichischer Länderbank* and many other 'great banks'; and also such private banking firms as *S. Bleichröder, Rothschilds*; and a host of German and Austrian financial houses including types of banks other than these joint stock and private banks.

Their methods were many and varied but usually were most successful in such practices as creating banks within each of these Balkan states. However under their banking laws the banks so created were completely controlled and operated by Germans and Austrians. Moreover, the banks created within the Balkan states expanded by establishing many branch banks throughout each state, strategically located from the viewpoint of the best interests of their German and Austrian creators. The Balkan Bank, Credit Bank of Sofia, in Bulgaria and the General Bank of Rumania, the Bank Marmorosch Blank and Company at Bucharest, Rumania, with their systems were the best illustrations of this method.

Another practice of the German and Austrian banking consortiums was to emit extensive and numerous loans both public (including municipal) and private (in the case of business enterprises) to these Balkan states. The promotion and financing of industrial enterprises were not only profitable for the banks but were also beneficial to each of these Balkan states. This was especially true in the case of railroad expansion in Bulgaria and Serbia and the exploitation of petroleum resources in Rumania.

One other and perhaps one of the most important activities of German and Austrian banking interests were the facilities which they offered to the commercial interests of the empires and also to their Balkan customers through the banks created in the Balkan states, especially in the matter of credit which was so essential to the transaction of trade relations.

In the conclusion of commercial treaties, by which all econnomic relations with the Balkan states were governed, Germany was by far the most successful. Under Reichskanzler von Bülow a trade agreements program was inaugurated in the year 1904. From 1904 to 1906 commercial treaties were concluded with each of the Balkan states and though technically they were 'supplementary' agreements to the Caprivi treaties of the 1890s

they were actually far more extensive. These agreements were general commercial treaties embodying a reciprocal most-favored-nation principle and a tariff reduction schedule. A consular agreement usually supplemented or was incorporated in the general treaty. All of these commercial treaties were to expire in December, 1917 and they did remain in force until the outbreak of the World War in 1914.

The commercial treaties which Austria-Hungary had concluded with the Balkan states during the 1890s were not substituted by new agreements until 1909. The treaties concluded in this period (1900 to 1914) were not entirely satisfactory. The inability of Austria-Hungary to conclude desirable agreements with these states arose from the political and economic problems both within the Dual Monarchy and in the field of international relations. This was especially true in the case of Austro-Serbian relations, between which states a tariff-war raged with varying degrees of intensity from 1903 to 1911. The agreements which Austria-Hungary finally concluded with the Balkan states in this period were also to expire in 1917 and though they remained in force until 1914 they were wholly inadequate from the viewpoint of mutually favorable economic relations.

The actual trade relations consisted primarily of the export of manufactured goods of all kinds from the Austro-German economic bloc to each of the Balkan states. The principal categories in this export were textiles, iron and steel, and iron and steel products including machinery in all forms. The railroads and similar industrial expansion in these years contributed to the general tendency for this export to increase. The Dual Monarchy and Germany were among the principal markets for the exports of agricultural produce and industrial raw materials from these Balkan states. Grain, livestock, meat, garden produce, and fruit were the principal items of agricultural produce exported while those of industrial raw materials were petroleum, lumber, hides, and leather were predominant.

In this period 1900 to 1924 the total trade relations tended to steadily increase both as to volume and value. This fact was usually true of each of the items noted above. There were, of course, fluctuations from year to year but the advance was clearly evident, particularly as regards Germany's trade with

these states. The political crises, notably that of 1908, which resulted from the annexation of Bosnia-Herzegovina by the Dual Monarchy, and the Balkan Wars of 1912 and 1913, were foremost in creating adverse trade relations.

It may be concluded, however, that the states of Bulgaria, Rumania, and Serbia were definitely within the sphere of interest and economic control of the Austro-German bloc by the end of the period and though the expansion of the bloc into Serbia was comparatively unsatisfactory, it was not entirely unsuccessful.

The economic phases of German expansion into the Balkan states thus came about as a result of and an aim of Germany's power-politics following and also concurrently with its rapid rise to economic leadership and to the position of a world power in the years 1871 to 1914. The German great banks and bank consortiums, the heavy industries and cartels, and the encouragement by an aggressive government were the key forces by which German economic expansion was conducted.

Austria, though already geographically a part of the German economic unit, became a definite part of a great central European economic bloc.

In order that Germany might incorporate Austria economically and then proceed to gain supremacy in southeastern Europe, the economic institutions of Germany experience remarkable changes. The rise of the joint stock bank was a significant factor from the beginning to the end in this study. The distinction in identity of German banks from industry, as separate economic factors, was a diminishing characteristic. This fact, and the rapid industrialization of Germany, and the aggressive foreign policy of the Government were simultaneous, interlocking elements contributing to the rise of Germany as a world power.

The banks, especially, gave a national character to the eastward expansion movement, because they constituted a medium or agency between the German people as a whole and the economic forces involved. The close coordination of banking, industry, and government, and the vital concern of all the people in the success of these institutions, together with the economic and political alliance with Austria constituted a single, powerful, driving economic force which operating from 1900 to 1914

successfully attained a dominant position in the domestic and foreign economic affairs of Bulgaria, Rumania, and Serbia.

The elements comprising this subject, viewed as a unit, show incontrovertibly that 'German' economic relations with these Balkan states were in no sense a series of isolated transactions of particular German commercial interests, or groups of them, with their Balkan customers; but on the contrary, the German with the Austrian economic interests constituted a definite and aggressive program of economic expansion, thoroughly nationalistic in all respects, and all-inclusive in the scope of their activity.

VITA

The author was born in Urbana, Illinois, March 6, 1916. He attended the Urbana public schools and graduated from the Urbana high school in 1933. The candidate enrolled in the University of Illinois and received his A.B. degree in 1937. In that year the opportunity was afforded him to pursue graduate work at the University of Illinois, which he accepted. The author received the A.M. degree in 1938 and since that time he has continued graduate work preparatory to the Ph.D. degree. The candidate has traveled extensively each summer throughout the United States visiting and stpdying independently at many colleges and universities and also in the Congressional Library in order to attain a boader outlook in the field of history and as a supplement to his formal academic training.